



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

State Capitol
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John G. Morgan
Comptroller

December 14, 2007

Memorandum

TO: Governor Phil Bredesen

Chairman Randy McNally
Senate Finance, Ways, & Means Committee

Chairman Craig Fitzhugh
House Finance, Ways, & Means Committee

FROM: John Morgan, Comptroller of the Treasury *JM/zw*
Riley Darnell, Secretary of State *RD*
Dale Sims, State Treasurer *Dale Sims (N.D.)*
M.D. Goetz, Jr., Commissioner
Department of Finance & Administration *MDG*

SUBJECT: Revenue Estimates for FY 2007-08 and FY 2008-09

The State Funding Board met on December 12 and December 14, 2007, to hear presentations on, and to engage in discussions about, the State's near-term economic outlook for the fiscal years 2007-08 and 2008-09.

The Board is charged, in Tennessee Code Annotated Section 9-4-5202(e), with the responsibility of developing consensus ranges of state revenue growth. In doing so, the Board evaluates and interprets economic data and revenue forecasts supplied by various economists as well as persons acquainted with the Tennessee revenue system. This is a revenue estimation process and not a budgeting process. The Board does not take into consideration the State's fiscal situation when developing its consensus ranges of revenue growth; however, the Board does strive to have the highest degree of confidence in the State's ability to achieve the consensus ranges. Fiscal considerations

properly belong with those who set the State's budget - the Administration that recommends appropriation levels based upon its assessment of revenue growth and the General Assembly that adopts a *de facto* revenue estimate through its final action on the appropriations bill.

During this meeting, the Board heard economic testimony from Dr. William Fox of The University of Tennessee; Dr. Albert DePrince of Middle Tennessee State University; Dr. Jeff Wallace of the University of Memphis; Mr. Jim White, Mr. Dan Cooper, and Mr. Robert Currey of the Fiscal Review Committee; and Mr. Reid Linn of the State Department of Revenue. The state tax revenue estimates provided by each of the presenters are summarized in two attachments to this memorandum.

The consensus of the presenters is that growth in the economy continues to be slow. None of the presenters is anticipating a recession; however they are anticipating slow growth in adjusted total tax collections for fiscal years 2007-08 and 2008-09. With respect to their forecasts, several of the presenters cautioned that there was a higher risk of undercollecting the estimate versus overcollecting the estimate.

Tennessee's growth in non-agricultural employment remains below the national average. There continues to be negative employment growth in the sectors of durable goods, non-durable goods, government and professional and business services. There has been positive growth in construction employment attributed to the construction of churches, schools, and hotel projects.

Presenters acknowledged that credit is currently difficult to obtain due in part to the subprime lending problem. In addition, household debt has risen as personal savings have fallen.

Tennessee is experiencing a slowdown in big ticket sales for light vehicles and homes, negatively impacting sales tax and privilege tax collections. Although internet and catalogue sellers are more compliant with sales tax collections than originally anticipated, Tennessee continues to lose \$500-600 million annually in uncollected state and local sales tax. Furthermore, Tennesseans consume or purchase many services which are not subject to sales and use tax.

Although franchise and excise tax compliance has improved, the legislature is likely to again face the need to make changes in the law in order to close loopholes discovered or created by corporate taxpayers. Additionally, the level of corporate refund requests filed in October may indicate both economic and revenue concerns with respect to the state's business community.

Underperformance of tobacco tax revenues was attributed to the early purchases of tobacco tax stamps in anticipation of the tax increase. The combination of the tax increase coupled with smoking restrictions may have impacted consumption of cigarettes.

In terms of state revenue forecasts, all presenters believed the state would undercollect the original budget estimates for fiscal year 2007-08.

Based on the testimony received and the Board discussions, the Board developed the following summarized consensus estimates expressed in ranges of growth rates in State tax revenue collections:

	FY 2007-08		FY 2008-09	
	Low	High	Low	High
Total State Taxes	3.25%	4.25%	2.75%	3.25%
General Fund Only	3.00%	4.00%	3.10%	3.60%

Historically, the estimated growth rate range for the General Fund has been higher than that for Total State Taxes. However, for fiscal year 2007-08, the estimated growth rate range for the General Fund is lower than the estimated growth rate range for Total State Taxes. This shift is attributed to the projected decline in revenues which, by statute, are allocated primarily to the General Fund (Franchise and Excise, Sales and Use, Tobacco, and Privilege taxes).

The Board believes that while it is difficult to predict with absolute certainty revenue growth rate ranges when the economy is at a turning point, these ranges are reasonable and appropriate for use in state budgeting and are based on statutory provisions enacted through the 2007 session of the General Assembly. As in past years, the Board intends to revisit these estimates prior to the General Assembly's final budget deliberations. Each of you will be advised of any revisions made by the Board at that time.

Additionally, the State Funding Board received presentations regarding the Tennessee Education Lottery (TEL). Legislation in 2003 created the Tennessee Education Lottery Corporation (TELC) (Tennessee Code Annotated Sections 4-51-101 et seq.) Tennessee Code Annotated Section 4-51-111(c) requires the Board to establish a projected revenue range for the "Net Lottery Proceeds" [defined in Section 4-51-102(14)] for the remainder of the current fiscal year and for the succeeding fiscal year. Ms. Rebecca Paul Hargrove, the Chief Executive Officer and Mr. Andy Davis, Chief Financial and Technology Officer of the TELC presented their estimation of total and Net Lottery Proceeds for fiscal years 2007-08 and 2008-09. The TELC estimates Net Lottery Proceeds for both fiscal years to be 27% of net revenues. Additionally, TELC estimates the amount for unclaimed prizes to be approximately 2% of prizes (excluding jackpot prizes), all of which is to be deposited into the "after school programs special account" at the end of each fiscal year.

Ms. Hargrove reviewed significant factors impacting TELC estimates. TELC introduced the "Play it Again" second chance program, extending the sale period for new

Instant Tickets. Powerball sales are impacted by the size of the jackpots. As of November 30th of the current fiscal year, only one jackpot cycle has exceeded \$300 million compared with 2 cycles of over \$200 million during fiscal year 2006-07. Lotto 5 sales are trending lower compared with the prior year. Sales from HotTrax Champions, a monitor-based online game, have been hindered because of limited availability at the retail outlet level. TELC will offer an additional Million \$ Madness Game and will add Lotto Plus, an instant online game, by mid February 2008. The number of vendors continues to remain at approximately 4700.

Ms. Hargrove discussed the decision to change from manual drawings to computer generated drawings for the Cash 3, Cash 4, and Lotto 5 Games. The change was precipitated by the end of the initial contract with television stations across the State that broadcast the drawings. The cost to continue manual drawings is estimated to be \$5 million, which is slightly more than the Net Lottery Proceeds attributed to those particular games.

The Board additionally heard from Mr. Robert Currey, Chief Economist with the Fiscal Review Committee (FRC), who presented to the Board the FRC's projections. Mr. Currey reviewed the fiscal year 2006-07 performance of the TELC and reported \$271,968,491 in Net Lottery Proceeds. In looking at fiscal year 2007-08, Mr. Currey noted moderate growth for the instant games, assuming a continuation of a prize payout ratio of 65%. Lotto 5 continues to experience negative growth. He additionally forecasted flat growth for HotTrax Champions. His assumptions include one new on-line game (Lotto Plus) and total expenses at 73% of total net revenues. The Net Lottery Proceeds available for deposit into the Education Account for fiscal years 2007-08 and 2008-09 are anticipated to be 27% and 26.75%, respectively. The projections for fiscal years 2007-08 and 2008-09 do not factor in the continuation of the allotment of \$25,000,000 for Pre-K and Early Childhood Education Programs.

The Board then heard from Mr. David Wright, Assistant Director for Policy Planning and Research, of the Tennessee Higher Education Commission, and from Mr. Tim Phelps, Associate Executive Director for Grants and Scholarship Programs, of the Tennessee Student Assistance Corporation. In fiscal year 2006-07, there were 67,000 awards in the TEL Scholarship program, with an actual cost of \$191,404,484. Mr. Phelps increased the fiscal year 2007-08 projections to 78,000 awards, with a projected cost of \$233,000,000 (representing a fully mature program with no growth in first time freshmen). Mr. Wright presented estimates for fiscal year 2008-09 of 80,000 awards, with a projected cost of \$238,000,000. These awards include all lottery-funded scholarship programs as authorized through the 2007 session of the General Assembly, including Hope Scholarship, General Assembly Merit Scholarship, ASPIRE Award, HOPE Access Grant, Wilder-Naifeh Technical Skills Grant, Foster Child Tuition Grant, Dual Enrollment Grant, and Math & Science Teacher Loan Forgiveness Program.

The estimates provided by each of the presenters are summarized in an attachment to this memorandum. Consensus was reached on the following estimates of the range for Net Lottery Proceeds to be deposited in the Lottery for Education Account and used for the various statutory purposes:

	FY 2007-08		FY 2008-09	
	Low	High	Low	High
Net Lottery Proceeds	\$274,000,000	\$284,000,000	\$280,000,000	\$290,000,000

These estimates assume no legislative changes regarding the TELC and its authority. Although the volatility of lottery sales contrasts with the recurring nature of scholarships, the Board noted that estimates of Net Lottery Proceeds for both fiscal years exceed the current estimate of the scholarship program.

The estimates of the Net Lottery Proceeds will be revisited at the time the State Funding Board considers revisions to the ranges of State revenue estimates prior to the adoption of the State's Appropriations Act. As indicated previously, each of you will be advised of any revisions made by the Board at that time.

Attached are copies of the letters received pursuant to Tennessee Code Annotated Section 4-51-111(c)(2)(B) which states:

Before December 15, 2003, and before December 15 in each succeeding year, appropriate state agencies shall submit to the funding board and to the governor their recommendations for other educational programs and purposes consistent with article XI, § 5 of the Tennessee Constitution based on the difference between the funding board's projections and recommendations for the lottery scholarship program based on the report submitted pursuant to subdivision (c)(2)(A). In no event shall such recommendations exceed the projections of the funding board for a specific fiscal year.

Each of us stands ready to discuss this further at your convenience.

Attachments

Revenue Estimates (2)
Lottery Estimates
TSAC/THEC Report
Funding Request Letters (2)

cc. The Honorable Ron Ramsey
The Honorable Jimmy Naifeh

COMPARISON OF ESTIMATED STATE TAX REVENUE FOR
FISCAL YEAR 2007-2008
(Accrual - Basis Estimates)

Schedule 1

2007-2008													
DEPARTMENT OF REVENUE	2006-2007 ACTUAL	BUDGETED	% CHANGE OVER 06-07 ACTUAL	DR. FOX ESTIMATE	% CHANGE OVER 06-07 ACTUAL	FISCAL REVIEW ESTIMATE	% CHANGE OVER 06-07 ACTUAL	REVENUE DEPT. ESTIMATE	% CHANGE OVER 06-07 ACTUAL	DR. DePRINCE ESTIMATE	% CHANGE OVER 06-07 ACTUAL	DR. WALLACE ESTIMATE	% CHANGE OVER 06-07 ACTUAL
SOURCE OF REVENUE	ACCRUAL	ESTIMATE		ESTIMATE	ACTUAL	ESTIMATE	ACTUAL	ESTIMATE	ACTUAL	ESTIMATE	ACTUAL	ESTIMATE	ACTUAL
Sales and use Tax	\$ 6,815,407,300	\$ 7,093,300,000	4.08%	\$ 6,999,900,000	2.71%	\$ 7,040,316,000	3.30%	\$ 7,004,400,000	2.77%	\$ 6,912,800,000	1.43%	\$ 7,035,700,000	3.23%
Gasoline Tax	612,263,500	602,000,000	-1.68%	614,100,000	0.30%	620,911,000	1.41%	616,500,000	0.69%	622,100,000	1.61%	635,900,000	3.86%
Motor Fuel Tax	185,879,400	189,000,000	1.68%	184,000,000	-1.01%	186,612,000	0.39%	186,200,000	0.17%	184,800,000	-0.58%	189,500,000	1.95%
Gasoline Inspection Tax	65,312,200	65,500,000 *	0.29%	66,300,000	1.51%	66,444,000	1.73%	65,000,000	-0.48%	58,600,000 *	-10.28%	66,000,000	1.05%
Motor Vehicle Registration Tax	257,367,700	260,000,000	1.02%	260,000,000	1.02%	258,214,000	0.33%	258,500,000	0.44%	266,700,000	3.63%	266,000,000	3.35%
Income Tax	247,567,500	263,200,000	6.31%	257,500,000	4.01%	255,408,000	3.17%	265,500,000	7.24%	263,500,000	6.44%	253,100,000	2.23%
Privilege Tax - Less Earmarked Portion	313,793,300	344,900,000	9.91%	316,800,000	0.96%	321,638,000	2.50%	323,200,000	3.00%	312,300,000 (1)	-0.48%	307,800,000	-1.91%
Gross Receipts Tax - TVA	250,247,600	261,100,000	4.34%	270,300,000	8.01%	270,333,000	8.03%	270,300,000	8.01%	261,100,000 **	4.34%	261,100,000 **	4.34%
Gross Receipts Tax - Other	27,370,100	23,300,000	-14.87%	23,300,000	-14.87%	27,644,000	1.00%	27,800,000	1.57%	25,400,000	-7.20%	19,600,000	-28.39%
Beer Tax	17,979,100	18,500,000 *	2.90%	18,500,000	2.90%	19,072,000	6.08%	18,400,000	2.34%	16,500,000 *	-8.23%	18,800,000	4.57%
Alcoholic Beverage Tax	40,998,300	42,400,000 *	3.42%	42,600,000	3.91%	42,898,000	4.63%	42,700,000	4.15%	37,900,000 *	-7.56%	43,100,000	5.13%
Franchise & Excise Taxes	1,766,079,800	1,820,900,000	3.10%	1,820,900,000	3.10%	1,713,728,000	-2.96%	1,856,800,000	5.14%	1,758,700,000	-0.42%	1,871,500,000	5.97%
Inheritance and Estate Tax	112,393,000	93,700,000 *	-16.63%	93,700,000	-16.63%	90,856,000	-19.16%	107,600,000	-4.26%	83,800,000 *	-25.44%	77,900,000	-30.69%
Tobacco Tax	137,993,500	359,300,000 *	160.37%	329,300,000	138.63%	307,628,000	122.93%	329,300,000	138.63%	321,400,000 *	132.91%	321,400,000 ***	132.91%
Motor Vehicle Title Fees	11,105,200	12,000,000 *	8.06%	11,500,000	3.56%	11,436,000	2.98%	11,000,000	-0.95%	10,700,000 *	-3.65%	10,900,000	-1.85%
Mixed Drink Tax	53,656,700	55,800,000 *	3.99%	57,400,000	6.98%	56,608,000	5.50%	56,100,000	4.55%	49,900,000 *	-7.00%	56,400,000	5.11%
Business Tax	133,773,300	134,200,000 *	0.32%	139,100,000	3.98%	137,786,000	3.00%	139,300,000	4.13%	120,100,000 *	-10.22%	135,800,000	1.52%
Severance Tax	1,549,400	1,700,000 *	9.72%	1,700,000	9.72%	1,900,000	22.63%	1,900,000	22.63%	1,500,000 *	-3.19%	2,000,000	29.08%
Coin Operated Amusement Tax	340,700	300,000 *	-11.95%	300,000	-11.95%	300,000	-11.95%	300,000	-11.95%	300,000 *	-11.95%	300,000 ****	-11.95%
Unauthorized Substance Tax	1,602,700	2,000,000 *	24.79%	2,000,000	24.79%	2,200,000	37.27%	2,000,000	24.79%	1,800,000 *	12.31%	700,000	-56.32%
TOTAL DEPARTMENT OF REVENUE	\$ 11,052,680,300	\$11,643,100,000	5.34%	\$11,509,200,000	4.13%	\$11,431,932,000	3.43%	\$11,582,800,000	4.80%	\$11,309,900,000	2.33%	\$11,573,500,000	4.71%
GENERAL FUND ONLY (2)	\$ 9,261,248,800	\$ 9,778,900,000	5.59%	\$ 9,632,000,000	4.00%	\$ 9,545,032,000	3.06%	\$ 9,699,900,000	4.74%	\$ 9,434,800,000	1.87%	\$ 9,670,900,000	4.42%

Budgeted Est. Compared to New Est. - Total

-\$133,900,000

-\$211,168,000

-\$60,300,000

-\$333,200,000

-\$69,600,000

Budgeted Est. Compared to New Est. - Gen. Fund

-\$146,900,000

-\$233,868,000

-\$79,000,000

-\$344,100,000

-\$108,000,000

SELECTED TAXES	ACTUAL	BUDGETED	%	DR. FOX	%	FISCAL REVIEW	%	REVENUE DEPT.	%	DR. DePRINCE	%	DR. WALLACE	%
SALES AND USE TAX	\$ 6,815,407,300	\$ 7,093,300,000	4.08%	\$ 6,999,900,000	2.71%	\$ 7,040,316,000	3.30%	\$ 7,004,400,000	2.77%	\$ 6,912,800,000	1.43%	\$ 7,035,700,000	3.23%
FRANCHISE AND EXCISE TAXES	1,766,079,800	1,820,900,000	3.10%	1,820,900,000	3.10%	1,713,728,000	-2.96%	1,856,800,000	5.14%	1,758,700,000	-0.42%	1,871,500,000	5.97%
INCOME TAX	247,567,500	263,200,000	6.31%	257,500,000	4.01%	255,408,000	3.17%	265,500,000	7.24%	263,500,000	6.44%	253,100,000	2.23%
ROAD USER TAXES	1,120,822,800	1,116,500,000	-0.39%	1,124,400,000	0.32%	1,132,181,000	1.01%	1,126,200,000	0.48%	1,132,200,000	1.02%	1,157,400,000	3.26%
ALL OTHER TAXES	1,102,802,900	1,349,200,000	22.34%	1,306,500,000	18.47%	1,290,299,000	17.00%	1,329,900,000	20.59%	1,242,700,000	12.69%	1,255,800,000	13.87%

(1) Privilege Tax estimates are reduced by \$34.6 million for the earmarked portion of the tax

(2) F&A calculated the General Fund distribution for all presenters.

* F&A distributed taxes for Dr. DePrince based on ratios for budgeted collections for 2007-2008

** F&A distributed the Gross Receipts Taxes for Dr. DePrince and Dr. Gnuschke based on anticipated TVA collections in 2007-2008

*** F&A substituted the Tobacco Tax estimate provided by Dr. DePrince for the estimate submitted by Dr. Wallace

**** F&A distributed the Coin Amusement Tax for Dr. Gnuschke based on anticipated collections in 2007-2008

COMPARISON OF ESTIMATED STATE TAX REVENUE FOR
FISCAL YEAR 2008-2009

(Accrual - Basis Estimates)

Schedule 2

DEPARTMENT OF REVENUE	% CHANGE		% CHANGE		% CHANGE		% CHANGE		% CHANGE	
SOURCE OF REVENUE	DR. FOX ESTIMATE	OVER 07-08 ESTIMATE	FISCAL REVIEW ESTIMATE	OVER 07-08 ESTIMATE	REVENUE DEPT. ESTIMATE	OVER 07-08 ESTIMATE	DR. DePRINCE ESTIMATE	OVER 07-08 ESTIMATE	DR. WALLACE ESTIMATE	OVER 07-08 ESTIMATE
Sales and use Tax	\$ 7,279,900,000	4.00%	\$ 7,300,808,000	3.70%	\$ 7,213,700,000	2.99%	\$ 7,242,600,000	4.77%	\$ 7,285,000,000	3.54%
Gasoline Tax	614,100,000	0.00%	627,120,000	1.00%	610,400,000	-0.99%	629,700,000	1.22%	643,600,000	1.21%
Motor Fuel Tax	190,400,000	3.48%	190,344,000	2.00%	188,500,000	1.24%	190,100,000	2.87%	193,200,000	1.95%
Gasoline Inspection Tax	68,300,000	3.02%	67,773,000	2.00%	64,200,000	-1.23%	60,500,000 *	3.24%	66,300,000	0.45%
Motor Vehicle Registration Tax	269,100,000	3.50%	263,378,000	2.00%	258,500,000	0.00%	274,900,000	3.07%	275,100,000	3.42%
Income Tax	262,600,000	1.98%	250,300,000	-2.00%	291,700,000	9.87%	279,200,000	5.96%	254,000,000	0.36%
Privilege Tax - Less Earmarked Portion	313,900,000	-0.92%	331,287,000	3.00%	347,400,000	7.49%	326,900,000 (1)	4.67%	363,700,000	18.16%
Gross Receipts Tax - TVA	283,800,000	4.99%	283,850,000	5.00%	274,400,000	1.52%	261,100,000 **	0.00%	261,100,000 **	0.00%
Gross Receipts Tax - Other	23,800,000	2.15%	28,197,000	2.00%	28,200,000	1.44%	28,400,000	11.81%	22,700,000	15.82%
Beer Tax	19,100,000	3.24%	19,930,000	4.50%	19,400,000	5.43%	17,100,000 *	3.64%	18,800,000	0.00%
Alcoholic Beverage Tax	44,300,000	3.99%	44,828,000	4.50%	45,500,000	6.56%	39,200,000 *	3.43%	44,200,000	2.55%
Franchise & Excise Taxes	1,857,300,000	2.00%	1,748,003,000	2.00%	1,981,300,000	6.71%	1,842,700,000	4.78%	1,896,200,000	1.32%
Inheritance and Estate Tax	93,700,000	0.00%	92,673,000	2.00%	117,700,000	9.39%	86,600,000 *	3.34%	78,800,000	1.16%
Tobacco Tax	345,800,000	5.01%	338,391,000	10.00%	332,600,000	1.00%	332,100,000 *	3.33%	332,100,000 ***	3.33%
Motor Vehicle Title Fees	11,600,000	0.87%	11,722,000	2.50%	11,100,000	0.91%	11,100,000 *	3.74%	11,300,000	3.67%
Mixed Drink Tax	61,400,000	6.97%	58,872,000	4.00%	58,900,000	4.99%	51,600,000 *	3.41%	57,800,000	2.48%
Business Tax	147,500,000	6.04%	141,920,000	3.00%	142,400,000	2.23%	124,100,000 *	3.33%	148,900,000	9.65%
Severance Tax	1,800,000	5.88%	2,000,000	5.26%	2,100,000	10.53%	1,600,000 *	6.67%	1,900,000	-5.00%
Coin Operated Amusement Tax	300,000	0.00%	300,000	0.00%	300,000	0.00%	300,000 *	0.00%	300,000 ****	0.00%
Unauthorized Substance Tax	2,000,000	0.00%	-	-100.00%	2,100,000	5.00%	1,800,000 *	0.00%	800,000	14.29%
TOTAL DEPARTMENT OF REVENUE	\$11,890,700,000	3.31%	\$11,801,696,000	3.23%	\$11,990,400,000	3.52%	\$11,801,600,000	4.35%	\$11,955,800,000	3.30%
GENERAL FUND ONLY (2)	\$ 9,976,300,000	3.57%	\$ 9,884,096,000	3.55%	\$10,090,300,000	4.02%	\$ 9,885,800,000	4.78%	\$10,022,900,000	3.64%
Growth over FY 07 Budgeted Est. - Total	\$247,600,000		\$158,596,000		\$347,300,000		\$158,500,000		\$312,700,000	
Growth over FY 07 Budgeted Est. - Gen. Fund	\$197,400,000		\$105,196,000		\$311,400,000		\$106,900,000		\$244,000,000	

SELECTED TAXES	DR. FOX	%	FISCAL REVIEW	%	REVENUE DEPT.	%	DR. DePRINCE	%	DR. WALLACE	%
SALES AND USE TAX	\$ 7,279,900,000	4.00%	\$ 7,300,808,000	3.70%	\$ 7,213,700,000	2.99%	\$ 7,242,600,000	4.77%	\$ 7,285,000,000	3.54%
FRANCHISE AND EXCISE TAXES	1,857,300,000	2.00%	1,748,003,000	2.00%	1,981,300,000	6.71%	1,842,700,000	4.78%	1,896,200,000	1.32%
INCOME TAX	262,600,000	1.98%	250,300,000	-2.00%	291,700,000	9.87%	279,200,000	5.96%	254,000,000	0.36%
ROAD USER TAXES	1,141,900,000	1.56%	1,148,615,000	1.45%	1,121,600,000	-0.41%	1,155,200,000	2.03%	1,178,200,000	1.80%
ALL OTHER TAXES	1,349,000,000	3.25%	1,353,970,000	4.93%	1,382,100,000	3.93%	1,281,900,000	3.15%	1,342,400,000	6.90%

(1) Privilege Tax estimates are reduced by \$34.6 million for the earmarked portion of the tax
(2) F&A calculated the General Fund distribution for all presenters.
* F&A distributed taxes for Dr. DePrince based on ratios for budgeted collections for 2007-2008
** F&A distributed the Gross Receipts Taxes for Dr. DePrince and Dr. Gnuschke based on anticipated TVA collections in 2007-2008
*** F&A substituted the Tobacco Tax estimate provided by Dr. DePrince for the estimate submitted by Dr. Wallace
**** F&A distributed the Coin Amusement Tax for Dr. Gnuschke based on anticipated collections in 2007-2008

Estimated Revenues Based on Growth Rates
State Funding Board
December 14, 2007

	<u>FY 2007-2008</u>	<u>Growth Rate</u>	<u>FY 2008-2009</u>	<u>Growth Rate</u>
<u>December 2007</u>				
Total Taxes	\$ 11,411,900,000	3.25%	\$ 11,725,700,000	2.75%
			\$ 11,782,800,000	3.25%
	\$ 11,522,400,000	4.25%	\$ 11,839,300,000	2.75%
			\$ 11,896,900,000	3.25%
General Fund	\$ 9,539,100,000	3.00%	\$ 9,834,800,000	3.10%
			\$ 9,882,500,000	3.60%
	\$ 9,631,700,000	4.00%	\$ 9,930,300,000	3.10%
			\$ 9,978,400,000	3.60%

State Funding Board
Net Lottery Proceeds Estimates
Actual 2006-2007 and Estimated 2007-2008 and 2008-2009
December 14, 2007

	2006-2007 Actual	2007-2008 Revised	%	2008-2009 Estimated	%
Lottery Corporation					
Low	271,968,000	277,400,000	2.00%	288,600,000	4.04%
High	271,968,000	283,000,000	4.06%	288,600,000	1.98%
Mid-Range Estimate	271,968,000	280,100,000	2.99%	288,600,000	3.03%
Fiscal Review Staff					
Low	271,968,000	271,050,000	-0.34%	275,600,000	1.68%
Median	271,968,000	279,100,000	2.62%	284,600,000	1.97%
High	271,968,000	286,040,000	5.17%	292,600,000	2.29%
Recommended Range					
Low	271,968,000	274,000,000	0.75%	280,000,000	2.19%
High	271,968,000	284,000,000	4.42%	290,000,000	2.11%



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DIVISION OF BOND FINANCE
SUITE 1600 JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0273
PHONE (615) 747-5370
FAX (615) 741-5986

Date: December 11, 2007

To: Governor Phil Bredesen, Chairman,
John G. Morgan, Secretary
Tennessee State Funding Board

From: Mary-Margaret Collier, Assistant Secretary
Tennessee Local Development Authority

Mary-Margaret Collier

Re: Request For Transfer of Lottery Funds

Pursuant to T.C.A. 4-51-111(c)(2)(B) I am hereby submitting on behalf of the Tennessee Local Development Authority a request for funding from the fiscal year 2007 excess lottery proceeds in the amount of \$50,000,000. Along with the \$9,550,574 previous deposited into the account through the allocation of 1% of the net proceeds from the lottery, the purpose of the funding is threefold:

- (i) \$30,000,000 would be used to fund the credit enhancement program that would improve the credit quality of local governmental units that need to issue debt to construct new schools or renovate existing education facilities,
- (ii) \$28,000,000 would be used to create a revolving loan fund program that could provide below market interest rate loans to local governments funding similar educational facilities and
- (iii) \$1,550,000 would be used for legal and other administrative fees to establish and provide credit ratings for the fund and to market the program to the local education agencies and local governments.

The \$30,000,000 allocated to the credit enhancement program will support approximately \$230,000,000 in principal amount of debt issued, assuming 1.5X coverage, for new school construction and renovation of other educational facilities. Like bond insurance, it would provide credit support for each debt service payment. We will work with the credit rating agencies to provide each "insured" credit with an Aa3/AA- credit rating. Such a rating would lower the cost of borrowing and provide market access to the lower

rated credits throughout the State. Should the General Assembly determine that the credit enhancement program is not in the best interest of the school systems, all funds deposited into the special account could be used to fund the revolving loan fund.

The \$28,000,000 allocated to establish a revolving loan fund providing below market interest rate loans would be used on a matching basis to reduce the cost of capital for school construction. We are proposing that we match and fund the loans on a 10:1 basis. The \$28,000,000 would match \$280,000,000 issued by local governments. Thus, for each \$1,000,000 capitalized by the local government, the State would provide a below market interest rate loan in the amount of \$100,000. An elementary school costing \$11,000,000 would be funded with \$10,000,000 in bonds and \$1,000,000 in the below market interest rate state loan. Similar to the State Revolving Loan Program for water and sewer loans, this program would also have revolving provisions so that as loans are repaid, the funds can be used to make additional loans. The plan will create a growing and perpetual program to assist local governments in funding their educational facility needs.

The modeling assumptions and the amount of support may be modified to fine tune each of the programs. Likewise, all of the allocated funds could be placed in either of the alternative programs

We also request that you ask the General Assembly to amend the current statute so that 1% of the excess net lottery proceeds continue to be deposited into this fund. With this provision, the program could continue to grow and provide additional funding to construct or renovate K-12 educational facilities.

I would be pleased to discuss these programs with you in more detail at your convenience. Thank you for consideration of this request.




STATE OF TENNESSEE
DEPARTMENT OF EDUCATION
6th FLOOR, ANDREW JOHNSON TOWER
710 JAMES ROBERTSON PARKWAY
NASHVILLE, TN 37243-0375

PHIL BREDESEN
GOVERNOR

LANA C. SEIVERS, Ed.D.
COMMISSIONER

TO: State Funding Board
Attention: Mary-Margaret Collier

FROM: Lana C. Seivers 

DATE: December 13, 2007

SUBJECT: Request for \$25 Million from Net Lottery Proceeds for Early Education for FY 2008-2009

Pursuant to Tenn. Code Ann. 4-51-111(c)(2)(B) which states prior to December 15, "appropriate state agencies shall submit to the funding board and to the governor their recommendations for other education programs and purposes consistent with article XI, § 5 of the Tennessee Constitution", the Department of Education requests the allotment of \$25 million from net lottery proceeds in FY 2008-2009 for Early Education Programs. These funds will support improvements and enhancements for educational programs and purposes and such net proceeds shall be used to supplement, not supplant, non-lottery educational resources for educational programs and purposes.

Your consideration and approval of this request is appreciated. If you have any questions, please contact Tim Webb, Deputy Commissioner, at 741-5158.

cc: Bill Bradley